




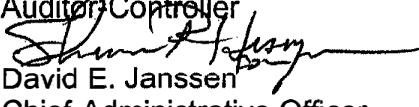
J. TYLER McCAULEY
AUDITOR-CONTROLLER

COUNTY OF LOS ANGELES DEPARTMENT OF AUDITOR-CONTROLLER

KENNETH HAHN HALL OF ADMINISTRATION
500 WEST TEMPLE STREET, ROOM 525
LOS ANGELES, CALIFORNIA 90012-2766
PHONE: (213) 974-8301 FAX: (213) 626-5427

November 17, 2003

TO: Supervisor Yvonne Brathwaite Burke, Chair
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley 
Auditor-Controller

David E. Janssen
Chief Administrative Officer

**SUBJECT: RETROACTIVE CONTRACTS – STATUS OF THE
COUNTYWIDE CONTRACT MONITORING SYSTEM**

In June 2003, we informed your Board that we were working on phase two of the Countywide Contract Monitoring System (CCMS). The purpose of CCMS is to provide County management with an automated system to identify expired contracts, contracts near expiration, and to strengthen contract compliance and monitoring. This memorandum provides information on the progress of the work to date in this area.

Summary

We have completed the second phase of CCMS which allows County departments to view and update contract information on line using the County's Intranet. During August and September 2003, the Auditor-Controller trained over 100 departmental staff on how to use CCMS. Departments are now responsible for updating CCMS on line as new contracts are added or deleted.

A summary report as of November 4, 2003 identified that 32 County departments and reporting entities under the Board of Supervisor's authority have submitted information relating to 6,175 contracts. Our review of the CCMS reports indicates that:

- There are no over expended contracts. That is, County departments have not paid contracts in excess of the contract maximum amount.

- Seven departments have 535 contracts that have been expired for more than 60 days, and have not updated CCMS to confirm that no service has been received since the expiration date.
- Twenty-one departments have 535 contracts that will expire within the next 90 days.
- Two departments have most of the CCMS exceptions which need to be corrected so that CCMS reports provide accurate data.

CCMS Reports

A variety of reports are generated from CCMS on the first working day of each month and are e-mailed directly to County contract staff responsible for managing the contracts. The CCMS reports identify all contracts that reside on CCMS as well as contracts with invalid and missing data, contracts where payments are nearing or have exceeded contract maximum amounts, contracts within 90 days of expiration and expired contracts. Contract managers are responsible for reviewing the reports and taking corrective action to ensure retroactive and over-expended contracts do not occur.

Over-Expended Contracts

As of November 4, 2003, five County departments had a total of 46 contracts where they had paid contractors in excess of the maximum contract amount identified in CCMS. We contacted all five departments and confirmed that transposition errors, recording payments to the wrong contract, etc. resulted in the appearance of contract overruns on CCMS. All five departments have corrected the information on CCMS and currently, no over expended contracts reside on CCMS.

Expired Contracts

CCMS currently identifies seven departments with 535 contracts that have been expired for more than 60 days and where there is no confirmation in CCMS that services have ceased. It is appropriate for an expired contract to reside on CCMS until the final contract payment has been made. However, departmental management is responsible for ensuring services cease when contracts expire and for adding comments in CCMS confirming that the services ceased when the contract expired. We are in the process of reminding the seven departments of their responsibility to confirm and clearly indicate in CCMS by the end of the month if any of the 535 expired contracts have discontinued providing services.

Contracts Near Expiration

Three separate reports are generated from CCMS to identify contracts that will expire within 30, 60 and 90 days. In many cases, these reports merely serve as alerts to notify

contract managers that they will either need to exercise contract extensions, send out RFPs or terminate services. Twenty-one departments are identified on CCMS as having 535 contracts that will expire within the next 90 days. CAO budget analysts regularly work with departments to ensure the contracts do not become retroactive.

Exception Reports

The exception reports alert contract managers of contract information residing on CCMS that is invalid or missing. It is necessary for contract managers to correct the exceptions timely to ensure the database can help prevent contract overruns and retroactive contracts.

In May 2003, nearly 9,000 exceptions resided on CCMS. A significant amount of effort was required by contract managers countywide to correct more than 7,000 contract exceptions. Twenty-four departments have corrected 100% of their exceptions. Most of the contracts identified in CCMS with exceptions are under the management of the Department of Health Services (DHS) and the Department of Mental Health (DMH).

DHS has a total of 1,595 contracts reported on CCMS, of which 815 (51%) have exceptions. The exceptions appearing on the DHS/CCMS reports are primarily the result of DHS not uploading complete information to the CCMS database before we converted the system to the County's Intranet in August 2003. At the time of conversion, DHS' percentage of contracts with errors had been 99%. Therefore, the department is actively working to correct CCMS information.

DMH has a total of 1,011 contracts reported on CCMS, of which 103 (10%) have exceptions. DMH has eliminated forty-one contract exceptions during the first week of November.

Contract Payments from Trust Accounts

We are continuing to work with individual departments to add, or correct information that is identified as erroneous on CCMS. For example, all departments were requested to add encumbrance numbers to CCMS so that we will be able to update payment information automatically after we complete the CAPS/CCMS interface. However, we have learned that some departments are not adhering to appropriate disbursement policies, which require encumbrances to be established for their contracts. Rather, some departments are paying their contractors directly from trust accounts. Although it may be appropriate to pay a few contractors from trust accounts, in most instances an encumbrance is necessary to ensure the department does not exceed its budgeted spending authority.

Prior to CCMS, we were not able to identify situations where departments were paying contracts from trust accounts because of the decentralized payment process. However, with CCMS, we now have the ability to identify contracts where payments have been

made without encumbrances. We will be reviewing 100% of all contracts where encumbrances have not been established and advise departments if their payment methods are appropriate.

We are working with staff in the Internal Services Department (ISD) to enable departments to utilize the various other tools available in the new contract database to create ad hoc reports to further enhance their monitoring efforts. We expect the ad hoc reporting tool to be available to departments in December. Additional enhancements are planned to provide an interface with the County's accounting system, CAPS, to validate that contract expenditures do not exceed contract maximum amounts.

As reported previously, it is not possible to absolutely prevent payments on expired contracts if departments violate contract and purchasing policy and procedures. In addition, the quality of the information to be maintained in the new database will depend on the quality of the data provided by departments. However, we believe CCMS provides us with additional tools to ensure departments are taking their contract monitoring efforts more seriously.

JTM:DEJ:MMO

c: Department Heads